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DEPT OF ENERGY FOR A/S KHBERT, TCUTLER, CZAMUDA, RLUHAR

DEPT PASS TO USTR MDELANEY/CLILIENFELD/AADLER/CHINCKLEY

DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT

TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN

USDA PASS FAS/OCRA/RADLER/BEAN/FERUS

EEB/CIP FSAEED, KDUNNE, AGIBBS

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BEXP, KBIO, KIPR, KWMN, IN

SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of July 20-24, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of July 20-24, 2009, including the following:

-- GOI Releases Online Customs and Tariff Database
-- Report on Benefits to India of Increasing FDI in Higher Ed
-- Minister Sharma on Retail Growth and Agricultural Challenges
-- Auto Component Industry Fares Well Despite Lower Exports

-- India-ASEAN FTA Finalized, But Opposed in Parliament
-- India and China Agree to Further Strengthen Trade Ties
-- New Disinvestment Secretary Announces Privatization Plan
-- India to Receive \$4.5 Billion SDRs from the IMF
-- Infrastructure Sector Growing

GOI Releases Online Customs and Tariff Database

¶2. (U) The Government of India (GOI) launched its first ever "Customs Tariff Database Online" on July 21, 2009. Department of Economic Affairs advisors in the Ministry of Finance collaborated with the Academy of Business Studies, a private research publisher, to design the comprehensive database. Chief Economic Adviser Arvind Virmani told reporters that the database will prove helpful in analysis of issues related to customs tariffs. The user-friendly database is expected to provide the business community as well as researchers with reliable online data. The online database consists of two sections: the main database provides information on India's Customs Tariff Schedule, including 11,000 tariff codes covering all customs duties, including countervailing duties (CVD) of excise, CVD of VAT, and anti-dumping and safeguards duties. The first section also contains information related to import policy restrictions, non-tariff barriers such as labeling and country preferences, as well as import and export values from Ministry of Commerce data. The second section provides information related to India's 13 regional and bilateral trade agreements. The database will be available on a subscription basis. Post will provide more information about the database as it becomes available.

Report on Benefits to India of
Increasing FDI in Higher Ed

¶13. (U) According to local media, the Department of Education within the Ministry of Human Resource Development (HRD) will soon present legislation entitled the "Foreign Educational Institutions (Regulation of Entry and Operations, Maintenance of Quality and Prevention of Commercialization) Bill" to the Cabinet for clearance.

According to GOI estimates, India's education sector requires \$80 billion of investment. HRD Minister Kapil Sibal has publicly made a strong pitch for greater private investment and allowing foreign universities with strong regulatory mechanisms to enter the sector. According to a report issued by the government-sponsored National Knowledge Commission, if passed, the proposed legislation will increase the number of foreign students traveling to India for higher education. An influx of approximately 50,000 foreign students, paying fees at an average of \$10,000 per year, would yield \$500 million per year in profits.

¶14. (U) The HRD Ministry has reportedly admitted to not having accurate statistics on the extent of existing cooperation between Indian and foreign higher education institutions. However, higher education representatives cite that in 2004, 131 Indian institutions had partnerships with foreign institutions. Currently, there are around 31 foreign universities are partnering with Indian institutions, of which 11 are UK-based and 13 are U.S.-based.

Minister Sharma on Retail Growth
and Agricultural Challenges

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¶15. (U) In an address at a conference held by the Federation of Indian Chambers of Commerce and Industry (FICCI), Minister of Commerce and Industry Anand Sharma noted the success of the growing Indian retail sector despite the global economic slowdown. In his remarks, Sharma highlighted the significance and size of the retail sector in the Indian economy, citing the sector's high projected growth of \$521 billion by 2012. Mentioning GOI stimulus packages and rural development programs including the farmer debt waiver program and the National Rural Employment Guarantee (NREG) program, Sharma pointed to the role of GOI in developing the Indian rural economy, which in turn, has allowed for growth in the retail sector.

He was also quick to observe that challenges remain to achieving "inclusive growth," including the development of infrastructure and agriculture. While increases to minimum support prices (MSP) to farmers are controversial, he stated, they were necessary. "Our farmers need this," remarked Sharma, "and if required, the government will do more." He suggested that India needs a "special effort in agro-based industries" and that development in the food processing industry would increase employment and enhance food security, as Sharma claimed, 40 percent of food produced in India currently is wasted post-harvest due to inadequacies in agricultural infrastructure and the supply chain.

Auto Component Industry Fares
Well Despite Lower Exports

¶16. (U) The Automotive Component Manufacturers Association of India (ACMA) announced this week that it plans to reevaluate business forecasts as domestic sales have been higher than originally expected, despite falling export sales. A 2004 McKinsey report predicted Indian auto component makers would reach revenues as high as \$33-40 billion by 2015, comprised of \$20-25 billion in exports and \$13-15 billion in domestic sales. However, at the end of FY 08-09, local auto component manufacturers reported \$14.4 billion in domestic sales, superseding targets earlier than expected. Exports, however, lagged behind the target of \$3.6 billion. ACMA attributed the faster growth in domestic sale revenues to launches of several new cars being manufactured in India, including Tata's Indica and Nano as well as the Mahindra Xylo.

India-ASEAN FTA Finalized, But

Opposed in Parliament

¶17. (U) India and the Association of South East Asian Nations (ASEAN) have concluded the Free Trade Agreement (FTA) document, which now awaits signatures by the two sides. On the sidelines of the NAM Summit in Phuket, Prime Minister Manmohan Singh discussed the signing of the India-ASEAN FTA with his Malaysian counterpart, which is scheduled to be implemented beginning January 1, 2010. The FTA will eliminate tariffs on over 4,000 products over six years, including chemicals, electronics and some agriculture products. (Note: India in 2008 announced that the India-ASEAN FTA would be signed at the ASEAN Summit, initially scheduled for December 2008. However, the Summit was postponed to February 2009 due to political turmoil in Thailand. The signing was further delayed by Indian general elections, as PM Manmohan Singh halted the FTA signing until the new government was formed. The Cabinet must approve the agreement before it can be signed. End Note.)

¶18. (U) Local media reports that the FTA was informally discussed in Parliament earlier this week. Opposition members of Parliament are reported to have opposed the FTA, claiming that that signing the agreement would be devastating to millions of Indian farmers due to the terms of duty reduction for items including pepper, coffee, tea, rubber, palm oil and cashews, among others. While the Indian Constitution does not mandate an FTA approval from Parliament, opposition parties (CPI, BJP) have collectively demanded that the government take Parliament into confidence before signing the FTA,

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given "present protectionist measures taken by different economies to address global economic recessionary conditions." Foreign Minister Krishna indicated recently that FTA, also known as the Comprehensive Economic Cooperation Agreement (CECA), with ASEAN may be signed in October 2009 at the Indo-ASEAN summit in Thailand.

India and China Agree to Further Strengthen Trade Ties

¶19. (U) India's External Affairs Minister S.M. Krishna met with his Chinese counterpart Yang Jiechi on the sidelines of a conference of Foreign Ministers of two dozen countries in New Delhi. The two agreed to increase discussions on major issues such as climate change, the Doha Round of trade talks and the global financial crisis. According to media reports, both Ministers referred to their common approach to the financial crisis, which they expect to be a focus at the third G-20 summit on the global financial crisis in September in Washington, DC. Krishna later told reporters that there was enough space for both China and India to grow without competing with each other and described the meeting as "very useful," with "cordial and friendly exchange of views." Government officials later told the press that the purpose of the "almost impromptu" meeting was fourfold: to get acquainted with each other; to deepen the interaction; review the growth of economic ties; and coordinate action on global economic issues. India and China have agreed to try to double bilateral trade to \$60 billion by 2010.

New Disinvestment Secretary Announces Privatization Plan

¶110. (U) West Bengal Power Secretary Sunil Mitra has replaced current Commerce Secretary Rahul Khullar as the Secretary of the Department of Disinvestment (i.e. privatization) under the Ministry of Finance. Mr. Mitra was involved in the formulation of disinvestment policy for 26 public sector undertakings (PSUs) in West Bengal during his tenure as Joint Secretary for Industry and Public Enterprises. Mr. Mitra has been named Disinvestment Secretary at a time when the Ministry of Finance is busy finalizing the modalities for offloading its equity in PSUs.

¶111. (U) Mr. Mitra could be busy as Finance Secretary Ashok Chawla (acting Disinvestment Secretary) publicly stated that the disinvestment program would roll out with the sale of government equity in listed entities where the general public owns less than

2-5 percent. The media has also reported that the Indian government is investigating possible initial public offerings or sales of up to 10 percent of 15 PSUs, mainly in the energy, power, and mining sectors. In addition, the Ministry of Finance's Economic Survey recommended that the government should raise approximately Rs 250 billion (\$5.2 billion) from disinvestment, but the 2009-10 budget currently being debated by Parliament only set a target of Rs 11.2 billion (\$233 million) from disinvestment in PSUs.

¶12. (U) Disinvestment proceeds go to the National Investment Fund (NIF), 75 percent of which is used to finance social sector schemes promoting education, health and employment. The remaining 25 percent is used for meeting the capital investment requirements of profitable and revivable central PSUs that yield adequate returns to finance expansion/diversification.

India to Receive \$4.5 Billion from the IMF to Boost Forex Reserves

¶13. (U) Based on its IMF quota, India would receive \$4.5 billion from the IMF plan to inject \$250 billion of Special Drawing Rights (SDR) into the global economy to augment member countries' foreign exchange reserves as a response to the global financial crisis. The SDR allocation is a part of a \$1.1 trillion plan agreed at the G-20

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summit in London in April and endorsed by the International Monetary and Financial Committee. The funds, likely to be available by end August, would boost India's foreign exchange reserves, which currently stand at \$263.9 billion. If India does not need this money, it has the option to trade the money with other countries, which are in need of international funds to boost their economic condition.

Infrastructure Sector Growing

¶14. (U) India's infrastructure sector, with a combined weight of 26.7 percent in the index of industrial production (IIP) registered growth of 6.5 percent in June 2009. For the first quarter of fiscal year 2010 (April-June), infrastructure growth was 4.8 percent versus 3.5 percent growth seen during the same period last year. Growth in June was due to robust production in cement, coal, electricity, and crude. According to Minister of Commerce and Industry, Anand Sharma, infrastructure growth shows that the three GOI stimulus packages are yielding results.

¶15. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

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